

BILL ANALYSIS

H.B. 1938
By: Ritter
Economic Development
Committee Report (Unamended)

BACKGROUND AND PURPOSE

In 2003, the 78th Legislature enacted Senate Bill 1771 which created the Texas Enterprise Fund, a \$285 million deal closing fund to be used by the state in negotiations to bring new business expansion to Texas when a competitive situation exists with other states. The Enterprise Fund is used to supplement local incentives and other state programs when competing for new jobs and investment. Since the program's inception, the Enterprise Fund has assisted in grants that are projected to create about 20,000 jobs and more than \$6 billion in direct economic investment in Texas.

To receive funding from the Enterprise Fund, the Governor, Lieutenant Governor and Speaker must unanimously agree to support an application for a project. An application must be submitted for each specific project which is reviewed for a possible grant. The Governor's Division on Economic Development and Tourism provides additional research on the specific application and any additional background needed for review by the three offices. The offices may also seek additional advice from members of the Advisory Board of Economic Development Stakeholders which was also created in SB 1771. The seven member board has 3 members appointed by the Governor, 2 appointed by the Lt. Governor, and 2 appointed by the Speaker. After an award is announced, the Governor's office and grant recipient negotiate a contract with specific job and investment targets and a schedule for their performance.

During the interim, the Legislative Budget Board (LBB) examined the use of the Enterprise Fund and compared it to deal closing funds in other states. The LBB Staff Performance Report to the 79th Legislature expressed concerns regarding the need for higher accountability standards for grant recipients on job creation and investment goals and the lack of a report on grant allocations, activities, and performances. The LBB recommended the following:

- Require that future Enterprise Fund agreements withhold a reasonable percentage of the overall grant until certain performance targets are met;
- Require all future agreements include a provision that ensures the full return of state money when major goals are not met; and
- Require the Governor to submit an annual report that identifies all grant allocations, activities, and grantee performance.

House Bill 1938 was drafted to address the recommendations by the LBB. HB 1938 will require the Governor to enter into a written agreement with potential grant recipients with specific terms and conditions of the award and ensure full financial accountability to the state for funds and repayment of the funds and penalties for noncompliance. The bill also requires the Governor's office to report to the Legislature before each session on the use of Enterprise Fund grants with specific reporting requirements.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1. Amends Section 481.078, Government Code, Subsection (f) and adding Subsections (g), (h), (i), and (j) to require the governor to establish agreements with grant

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recipients and to allow the governor to enforce penalties if the agreements are not met. Establishes information that possible grant recipients must disclose and states that the governor shall establish performance standards and reports for grants.

SECTION 2. Amends Subchapter E, Chapter 481, Government Code, by adding Section 481.079 REPORT ON USE OF MONEY IN TEXAS ENTERPRISE FUND to require that the governor compile and distribute reports containing details of grants awarded under the Enterprise Fund.

SECTION 3. States that this Act does not apply to agreements entered into before the Act's effective date.

SECTION 4. Provides the effective date of this Act.

EFFECTIVE DATE

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2005.